



OFFICE OF PUBLIC INSURANCE COUNSEL

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Interim Charge #1:

Senate Bill 442 and Standardized Disclosures

SB 442, which requires insurers that do not provide flood coverage in their policy to disclose that the policy does not cover flood events. Determine whether consumers are being properly informed of whether they have flood coverage. Examine the development of standardized disclosure forms for all insurance policies in Texas (health, homeowners, and personal auto) to provide more clarity to consumers about what the policy covers and any exclusions.

Office of Public Insurance Counsel (OPIC) Response:

OPIC recommended a flood disclosure requirement last session in our *Recommendations Report* similar to the one that the Texas Legislature passed during the 86th session. OPIC believes the flood disclosure requirement created by SB 442 is beneficial to consumers, both those with commercial and those with residential property policies. The disclosure required by SB 442 helps provide consumers with important information about their lack of flood coverage, in a more transparent manner, and thereby assists consumers in making informed decisions about their coverage and the financial implications of their coverage.

Required disclosures, especially standardized disclosures, promote consistency and transparency in the marketplace and help consumers better understand the policy they purchased and the limitations of that policy. Although disclosures are useful, the discussion of required disclosures is incomplete without a discussion about the totality of the information being received by consumers both when purchasing a new policy and upon renewal of that policy. In addition to lengthy policies replete with technical and legal terminology, consumers receive several disclosures. The disclosures often provide the information in easier-to-understand language and draw attention to the information contained therein, but they are still numerous.

To illustrate this point, here is a list of required notices generally included in a residential property renewal packet:

- Consumer Bill of Rights
- Contractual Limitations Period and Claim Filing Deadline
- Flood Disclosure
- Notice of Toll-Free Telephone Numbers and Information and Complaint Procedures
- Material Change Notice

- Notice of Premium Increase
- Pollution Exclusion Disclosure
- Privacy Notice
- Texas Volunteer Fire Department Assistance Fund Assessment Notice
- Use of Credit Information Disclosure

Due to the volume of disclosures, the information required to be disclosed can be missed by the consumer, even when the insurer meets the requirements. Accordingly, while notices are helpful, consumers may have a difficult time discerning what information requires immediate action and what information is important to know, but does not necessitate a prompt call to the insurer or agent. For example, OPIC received a complaint from a consumer who missed an important disclosure in the policy renewal packet for his homeowners policy. The consumer failed to see the disclosure informing him that the policy had a 5% (\$13,350) deductible. Most likely, he missed this important disclosure because it was located on page 27 of a 42-page renewal packet. The consumer also stated that he had no idea when the deductible changed from the amount on his original policy.

Another consideration for this discussion is that fact that Texas law does not require the Texas Department of Insurance (TDI) to review most notices provided by the insurer to the policyholder. OPIC is not suggesting that all communications and notices be mandated for regulator review and approval. There are valid reasons for not requiring TDI to review all communications. Some notice language is prescribed and does not require review. There is also value in allowing companies to communicate with policyholders without regulator involvement.

OPIC suggests, however, that a complete conversation about required notices include the totality of the information being received by the consumer. Coverage limitations, deductibles, and changes to coverages are important information for consumers, and it is vital that consumers understand these elements of their policy. This is especially true in a marketplace where policies vary, sometimes greatly, in the amount of, and types of, coverage they provide to consumers.

OPIC welcomes the opportunity to work with the Texas Legislature and stakeholders to find ways to help consumers better understand the policies they purchase.